



NEWS RELEASE

PRESS OFFICE

Release Date: November 19, 1998
Release Number: 98-102

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SBA News Releases: www.sba.gov/news/

SBA VENTURE CAPITAL PROGRAM PRODUCES \$5.3 MILLION PAYOFF FOR U.S. TAXPAYERS

WASHINGTON – A venture capital fund licensed and funded by the U.S. Small Business Administration (SBA) has paid the agency \$5.3 million, the largest shared profit to date in the agency's revamped Small Business Investment Company (SBIC) program, SBA Administrator Aida Alvarez announced today.

The \$5.3 million payment to SBA from MidMark Capital of Chatham, N.J. represents taxpayers' share of the profits realized from investments made with funds backed by SBA. The payment, which brings the total SBIC profit shares received by SBA since 1995 to \$13.6 million, will be made to the U.S. Treasury.

"The payment received by SBA from MidMark Capital is evidence of how well this program is working for small businesses, and further proof that the new, streamlined SBA is an excellent investment for the country," Administrator Alvarez said. **"Now, for the first time, U.S. taxpayers are sharing in the profits of these venture capital investments, and we have every reason to believe that these distributions will increase substantially over time. We all benefit when a program like this produces reliable sources of venture capital for small businesses that create new jobs and build the economy."**

"For example, just one company that benefited in its early stages from SBA-backed SBIC investments – Intel – paid more in taxes last year than the SBA's entire budget for 1998,"

Ms. Alvarez continued. **"And Intel is just one of this program's major successes. I could add Apple, Compaq, Federal Express, Outback Steakhouse and thousands of others. SBA-backed SBICs made more than \$2 billion in investments in small businesses in FY 1997. Who can tell if the Intel of the future is not among them?"**

The total distribution made by MidMark Capital to SBA amounts to more than \$30 million. Of that, \$5.3 million represents the SBA's profit participation and \$24.7 million represents MidMark's repayment of a portion of MidMark's outstanding leverage from SBA.

Under the SBIC program, SBA licenses and regulates privately owned and operated venture capital firms. The agency supplements the private sector capital raised by licensees with other funds raised through the use of SBA guarantees to help finance venture capital investments in small businesses.

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According to regulations implemented in April 1994, the SBA is permitted to provide funds to SBICs in the form of participating securities. Using the new securities allows SBICs to defer repaying their debt to the SBA until the small business investments they have made become profitable. The new securities allow the SBA to receive a share of the profits from successful investments.

Participating securities provide for payments of dividends or interest to the SBA only when the SBA-backed SBIC realizes earnings from the investments made with the funds. Those returns are not generally expected to occur until three to five years after the funds are made available.

MidMark Capital became one of the first SBIC participating securities licensees in September 1994. The investment that yielded the payment to SBA was made in SPD Technologies, a supplier of electric power delivery systems for U.S. Navy combat ships and submarines. As a result of MidMark's investment of \$5 million and extensive involvement with SPD's management, SPD grew from a company with 1996 revenues of \$93 million and 488 employees to a company with projected 1998 revenues of \$211 million and 1,250 employees. Mid-Mark earned \$80 million on its investment.

The creation of the participating securities program has spurred significant growth in the SBIC program. Since September 1994, the SBA has licensed almost 70 new SBICs in the participating securities program with private capital of \$1.2 billion. To date, SBA has provided those licensees with SBA-backed leverage amounting to almost \$1 billion. Those licensees have invested \$1.2 billion in much needed equity capital in 1,500 small growth companies.

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The U.S. Small Business Administration, established in 1953, provides financial, technical and management assistance to help Americans start, run, and grow their businesses. With a portfolio of business loans, loan guarantees and disaster loans worth more than \$45 billion, SBA is the nation's largest single financial backer of small businesses. Last year, SBA offered management and technical assistance to more than one million small business owners. SBA also plays a major role in the government's disaster relief efforts by making low-interest recovery loans to both homeowners and businesses. America's 24 million small businesses employ more than 50 percent of the private workforce, generate more than half of the nation's gross domestic product, and are the principal source of new jobs in the U.S. economy.

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